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Cuba: Foreign Financing Problems [redacted] 25X1

Cuba is experiencing its worst financial difficulties since it began rescheduling its hard currency foreign debt in 1982. To fund uninterrupted imports over the past year in the face of declining export earnings, Havana dipped increasingly into relatively expensive short-term credit markets and almost totally extinguished its hard currency reserves. This led Soviet and Western creditors to adopt a tough stance on new hard currency assistance and to press for reduced Cuban import spending. [redacted]

Havana unilaterally suspended interest payments on both its official and commercial debt coming due before finally agreeing to a Paris Club debt rescheduling in July. We believe Havana, as it has in the past, will try to delay making the import cuts demanded by its creditors, fearing that limited access to Western markets would slow production and fan discontent among Cubans already dissatisfied with consumer shortages and unemployment. Instead, Cuban economic planners appear to hold unrealistic expectations that the foreign trade account can be balanced in large part with a near-term surge in nontraditional exports and modest import substitution efforts. [redacted]

Considering Havana's reluctance to tighten austerity despite creditor insistence, President Castro could turn to other measures to relieve some of the building pressures on the regime, at least temporarily. We believe Havana is likely to look for a way to increase emigration and allow disgruntled, unemployed, and imprisoned Cubans who tax limited state resources to leave the country. In addition, Castro may try to divert popular concern from domestic economic woes temporarily by suspending or renouncing at least some of the hard currency debt, in an attempt to make scapegoats out of Cuba's creditors. [redacted]

The Evolving Crisis

Despite Castro's announced plan to limit import spending and increase exports to the West, unfavorable market conditions, bureaucratic inefficiencies, and political backsliding contributed to a deterioration of Cuba's hard currency trade balance last year. [redacted] hard currency 25X1
imports grew by at least 7 percent in 1985. Havana was forced to purchase sugar in Western markets to meet its export obligations to Moscow, while 25X1
relatively lenient access to imported producer goods was allowed in an attempt to stimulate the economy and head off popular dissatisfaction. [redacted] 25X1

[redacted] Cuban hard currency export earnings could not match the increase in imports last year. A sharp drop in world sugar prices, weather damage, and the diversion of sugar 25X1
exports to the Soviet Union contributed to a 34-percent drop in Cuba's hard currency sugar earnings. Despite energy conservation measures, falling energy prices toward the end of last year cut Cuba's income from the resale of Soviet oil—its largest foreign exchange earner—by 5 percent. 25X1
Startup delays, planning and distribution problems, agricultural disasters, and the continued impact of the US trade embargo also were cited by Cuban officials as major factors retarding the growth of hard currency exports last year. [redacted] 25X1

Early indicators point to the continued deterioration of Cuba's hard currency trade deficit in 1986. According to official statistics, damage to sugarcane fields, mills, and storage facilities from Hurricane Kate last November will cut sugar production from 8 million metric tons last year to about 7 million metric tons this year. Thus, Havana will have less sugar available for sale on Western markets, and, due to the large number of fixed-price contracts signed before the recent runup in world sugar prices, [redacted] 25X1
[redacted] hard currency income from sugar will fall by more than $50 million this year.

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Havana's New Trade Efforts

Increased import spending last year, despite the regime's determination to reduce hard currency outlays, probably indicates that most of the fat already has been trimmed from the import bill and that further cuts would contribute to material shortages and slowed national output. Cuban planners apparently plan to reduce the trade deficit with several modest trade adjustments:

- [redacted] *Cuba is pressing its Western suppliers to barter goods for Cuban exports, primarily sugar.*

- *In a move toward greater import substitution, Havana recently called for the collection of scrap metal, paper, and textiles, according to the Cuban press.*

- *To support dwindling foreign reserves, the National Bank of Cuba is attempting to salvage precious metals by establishing specialized stores to appraise and purchase gold and silver coins and jewelry at world market prices from Cuban citizens, according to the Cuban press. Western press reports that the gold mine on the Isle of Youth, closed for the past 25 years, has been reopened.*

- [redacted]

Moreover, we expect further cuts in the trade account. Financial stringencies probably will force Havana to yield more to Soviet pressures to substitute often inferior Soviet Bloc goods for Western imports that require hard currency. At the same time, the trickle of Western consumer goods into Cuba is likely to slow further unless the transactions can be funded profitably by the state, as with the government-operated catalog sales in which Cuban exiles pay the state exorbitant prices in hard currency to purchase consumer goods for their friends and relatives in Cuba. [redacted] 25X1 25X1

Over the past two years, the regime has pushed for the diversification of exports to boost foreign currency earnings and to obviate the need for import cuts. Havana's seemingly unfocused effort to create alternative export products has touched on the generation of a number of medical products and services, agricultural byproducts, and recycled goods. Sales teams have been dispatched around the world in search of new markets for Cuban exports. We judge, however, that Cuba's well-documented problems with quality control and transportation, its limited technological base, and foreign exchange shortages will continue to restrict the development, testing, and marketing of new products. By the same token, the depressed world oil market has dimmed Havana's hopes for large profits from the resale of Angolan and Libyan oil—at least some of which it received as payment for Cuban construction services. [redacted] 25X1 25X1

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Table 1
Cuban Hard Currency Balance of Payments

Millions US $

	1982	1983	1984	1985 [a]	1986 [b]
Current account	**359**	**239**	**−239**	**−153**	**−362**
Trade balance	727	531	82	73	−100
Exports	1,627	1,431	1,283	1,356	1,125
Sugar	765	305	283	187	137
Oil reexports	309	577	574	547	273
Imports	1,435	920	1,201	1,283 [c]	1,225
Net services and transfers	−368	−273	−321	−226	−262

[a] Preliminary.
[b] Projected.
[c] According to the US Interests Section, the consensus among foreign observers in Havana is that this figure is understated.

[redacted]

Table 2
Cuban Hard Currency Foreign Debt

Millions US $

	1982	1983	1984	1985
Total debt disbursed	**3,148**	**3,236**	**3,374**	**3,552**
Bilateral official debt	1,505	1,546	1,781	1,823
Government insured export credits	1,238	1,291	1,556	1,632
Multilateral official debt	21	29	19	20
Suppliers credits	55	112	258	399
Financial institutions	1,566	1,548	1,316	1,310
Short-term and import credits	911	974	803	827
Other	1	1		

[redacted] 25X1

[redacted] plunging world oil prices will cut hard currency oil reexport earnings in half. [redacted]

Havana again is showing little resolve in cutting its hard currency imports this year. In a report to its Western creditors in April, Havana referred to the "impossibility" of reducing imports because many of them have already been contracted for and doing so would cut production of critical exports. Havana, apparently in an effort to fund hard currency imports, drew down its foreign exchange reserves from $248 million—or about two and a half months of import coverage—at the beginning of this year to about two weeks of import coverage by May, according to press reports. The recent flurry of short-term commercial borrowing by Havana suggests that Cuba continues large import purchases despite the tightening credit markets and the drawdown of its foreign reserve holdings. [redacted] short-term commercial credits tied to imports now account for more than 30 percent of Cuba's more than $3.5 billion debt. In addition, the appreciation of key Western currencies against the US dollars Havana earns for sugar and oil sales has raised Cuban import costs and increased its debt servicing expenses—even with the recent fall in interest rates. [redacted]

Western Creditors Standing Firm

[redacted] Cuban economic planners projected a $468 million financing gap earlier this year despite Havana's unrealistic expectations for import credits and prefinanced exports. To close this gap, Havana turned to its official and commercial Western creditors to refinance $452 million, including previously rescheduled interest and principal, coming due in 1986 and an additional $595 million in 1987. Havana also requested $1 billion in new loans to finance imports over the next two years and announced its unilateral decision to suspend debt payments during May and June. Apparently surprised by the creditors' cold response, Havana agreed to continue making interest payments in May and June, but later suspended July payments. [redacted]

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Later this month, Havana finally reached agreement with the Paris Club to slash hard currency imports, but not before alarming already skittish lenders. [redacted] Western bankers have begun to recommend that banks prepare for a possible writeoff of Cuban debt. [redacted] Paris Club member governments began

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Table 3 *Million US $*
Cuba's Hard Currency Creditors at the End of 1984 [a]

	Official Debt	Private Debt	Total Debt
Total debt disbursed	**1,748**	**1,679**	**3,427**
Paris Club creditors	1,157	1,006	**2,163**
Japan	261	230	**491**
Spain	299	111	**410**
France	199	167	**366**
United Kingdom	87	123	**210**
Switzerland	22	106	**128**
Italy	83	27	**110**
Canada	29	54	**83**
Sweden	57	20	**77**
Luxembourg	1	68	**69**
Netherlands	23	42	**65**
Austria	31	16	**47**
Germany	11	33	**44**
Belgium	35	7	**42**
Denmark	19	2	**21**
Other free market countries	354	95	**449**
Argentina	329	3	**332**
Luxembourg	1	68	**69**
Panama	5	22	**27**
The Bahamas		23	**23**
Yugoslavia	10	9	**19**
Oil exporting countries and others	237	578	**815**

[a] Differences between these data and those in table 2 result from discrepancies in the [redacted] sources.

[redacted]

to tighten restrictions on export insurance to Cuba and some of Havana's regional creditors also have hardened their stance. According to the US Embassy in Mexico City, Mexico suspended its $150 million credit line at the end of April, pending the resolution of Havana's problems with the Paris Club. Similarly, Argentina will not renew its $200 million yearly credit line owing to Havana's current financial difficulties, according to State Department reporting. Nevertheless, we expect Havana to use the recently negotiated Paris Club agreement to press other official and commercial creditors for loans. [redacted]

Little Help From Moscow

So far, Moscow apparently has refused to bail Havana out of its current financial crisis. Indeed, we believe the Soviets may even be relishing Western creditor demands of financial discipline from Moscow's spendthrift client. The Soviet Union apparently is holding firm on its refusal earlier this year to increase hard currency assistance to Cuba significantly. Moreover, [redacted] Moscow did not agree to any major new capital investment projects in Cuba during the current 1986-90 five-year plan. More recently, [redacted] a Cuban National Bank official was sent to Moscow in late May to seek Soviet concurrence in reducing Cuban sugar deliveries to the Soviet Union to free up Cuban production for sale on hard currency markets. According to US Interests Section sources, however, Soviet officials in Havana said that Moscow denied the request. [redacted]

Capping hard currency assistance to Havana would be in line with Moscow's previous criticism of Havana's economic mismanagement and wasteful spending of scarce hard currency resources [redacted] It also would help ease Moscow's own hard currency difficulties resulting largely from declining oil production and low energy prices. [redacted]

We believe Havana will lobby Moscow to reverse its hardline position against additional hard currency assistance, but we expect the Soviets probably will comply only as a measure of last resort if Havana is unable to reach agreement with Western creditors. Even in such a case, we believe Moscow would require Cuba to institute tough austerity measures as a price for the aid. [redacted]

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Debt Renunciation?

Castro, who sometimes acts on quixotic impulse rather than pragmatic sense, may see several political benefits from some kind of debt moratorium. It would allow him to use Western creditor nations as a collective scapegoat to justify sharply increased austerity, while satisfying his own personal antipathy for the West by delivering a blow to capitalist

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governments. He may also believe such a move would allow him to regain prestige lost last year when he was criticized by some Third World leaders for not following his own calls for debt renunciation. [redacted]

[redacted] The continuing stream of hard currency imports, despite the near elimination of foreign reserves, may indicate that Havana is stocking its shelves with critical Western imports in case the decision is made to cut ties to Western lenders. [redacted]

At this point, however, we think these hints of debt repudiation probably are designed to gain additional concessions from lenders. Castro almost certainly realizes renunciation would effectively freeze Cuba's access to foreign currency inflows, and, with little or no foreign reserves remaining, Cuban planners would face an impossible task in trying to fund a minimal level of Western imports to support domestic production. Based on the lukewarm reception Castro received last year in his push for Third World debt repudiation and the likely opposition of Moscow to such a measure, we question whether the possibility of enhancing his political image would, in Castro's eyes, outweigh the cost associated with a cutoff from Western lenders. [redacted] 25X1

The Emigration Safety Valve

The surges in Cuban emigration precipitated by economic tensions and popular dissatisfaction in the past could be repeated in coming months as the regime struggles to provide an outlet for the disgruntled, unemployed, and imprisoned who are currently taxing limited state resources. We believe Havana probably is looking for ways to increase emigration to its Latin neighbors as well as the United States. In addition to legal emigration, Cuba may also be inclined to release political prisoners if Washington will allow them to come to the United States. The Castro regime, as it has in the past, may also allow citizens to use illegal emigration channels to the United States through third countries. If public dissatisfaction reaches a level perceived as intolerable to Castro, he could opt for another Mariel-style mass emigration. [redacted] 25X1

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Cuba: More Cabinet Changes 25X1

Two cabinet-level appointments announced by Havana on 1 July attest to the continuing fluidity in the top ranks of the government as President Castro tries to assemble a coherent management team to halt the country's economic slide. There have been 15 ministerial changes since April 1985—a turnover of almost half the 32 slots on the Council of Ministers. In contrast, there were only seven changes made in the five years prior to April 1985. There is no indication when this trend will end, but it seems clear to us that what Cuba needs most is fundamental policy changes rather than more changes in the ministerial ranks.

New Ministers
Joaquin Benavides Rodriguez was named Minister-President of the National Commission for the Economic Management and Planning System, which had not had a chief executive since it was formed in May with little fanfare. Judging from the brief press announcements at the time of its establishment, the commission has broad responsibility for integrating and standardizing the management and planning methods and systems used in the various branches of government. It apparently is also charged with developing and overseeing the implementation of policy on labor incentives.

Benavides had served since 1980 as Minister-President of the State Committee for Labor and Social Security (CETSS) following three years at the helm of the Central Committee's Economic Department. Prior to this, he served nine years in various posts with the CETSS's predecessor, the Labor Ministry, and thus seems well prepared to deal with run-of-the-mill labor matters.

The issue of labor incentives is a political time bomb at present, however, and Benavides seems certain to be caught between Castro's puritanical distaste for material incentives and the economic necessity of using bonuses to promote badly needed increases in productivity. In May, Castro dealt a major blow to material stimuli for peasants by abolishing the network of farmers' markets where surplus produce could be sold for private gain. In June, he launched a similar attack on nonagricultural workers who apparently were abusing the system of salary bonuses on a grand scale. While he has stopped short of outlawing material incentives altogether, Castro appears to be uncertain about how they can be used effectively. 25X1 Thus, Benavides has the task of overcoming widespread, deep-seated worker apathy without offending the political sensitivities of a chief of state who himself is undecided on the matter. 25X1

Benavides's replacement as Minister-President of the CETSS is Francisco Linares Calvo, who served for 17 years in numerous municipal and provincial posts in the party and its mass organization for labor before being appointed in 1980 to Castro's own Coordination and Support Staff. (Since February 1985 Castro has assigned four members of his personal staff to top government positions.) The Linares Calvo appointment, therefore, appears to be another setback for those in the leadership who see decentralization and greater delegation of authority as prerequisities to the resolution of Cuba's economic crisis. 25X1

Like Benavides, Linares Calvo faces major problems. 25X1 Cuba's industrial payrolls, for example, are enormously bloated with excess workers who, if fired as a result of the drive to improve efficiency and profitability, would worsen the already serious unemployment problem. Some excess workers almost certainly will be formed into "microbrigades" to work on the construction of housing, but the availability of government resources for such projects is likely to limit the number of microbrigades formed. 25X1 Moreover, according to the CETSS's own admission in October 1985, if the 234,000 Cuban workers now eligible to retire did so all at once, the economy could not support the expenditures necessary for providing annuities for them. The CETSS will also be responsible for adjudicating the wave of labor litigation that could well result from the government's current crackdown on the disbursal of salary bonuses and other incentives. [redacted] 25X1

Outlook

Benavides and Linares Calvo clearly are destined to play key roles in the regime's efforts to overcome worker apathy at the same time workers' benefits are being reduced. As a result, they will be prime candidates for scapegoats if these efforts arouse antipathy in the already weary and disillusioned population. Benavides is particularly vulnerable; he must deal directly with the sensitive incentives issue, and in doing so must rely on an untested new element of the governmental structure that is still in the process of organization. [redacted] 25X1

Some experimentation is likely. The basing of salaries on group productivity rather than individual productivity, for example, seems to be gaining favor after about a year of trial, according to the Cuban press. This system theoretically induces high producers in each group to exert social pressure on low producers to boost output and thus assure an acceptable salary for the group as a whole. This and other economic mechanisms that Benavides's National Commission may introduce, however, seem unlikely to do much to motivate the work force in the face of increasing austerity. [redacted] 25X1

[redacted] 25X1

Latin America Briefs

Nicaragua

Role of Western Internationalists [redacted] 25X1

The role of foreign volunteers in Nicaragua recently has been highlighted by the kidnaping of eight West Germans by anti-Sandinista rebels, the death of a Spanish health worker in a landmine explosion, and the killing of a Swiss doctor in an insurgent ambush. While relying largely on technical assistance from Cuba and the Soviet Bloc, the regime has also recruited sympathetic Westerners to assist in a variety of development projects and to spread pro-Sandinista views in their own countries. [redacted] several Nicaraguan officials met with solidarity groups and local authorities in West Germany, Austria, and Italy in May to obtain commitments and personnel for specific ventures including irrigation and electrification projects. In addition, the Nicaraguan Embassy in Madrid recruited a 50-man Spanish brigade in June to assist in teaching and coffee harvesting, [redacted] Cuba is financing the visit of a five-member Barbadian work brigade to Nicaragua to assist in agricultural projects and to work in the country's schools. Friendship and church groups, cultural organizations, peace organizations, and leftist political parties in West Germany, Belgium, Switzerland, Ecuador, Brazil, Argentina, and Uruguay also have sent volunteers in recent years. [redacted] 25X1

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Although the internationalists contribute marginally to the Nicaraguan economy through their labor and expertise—as well as the small quantities of hard currency they exchange—we believe their principal asset to the regime lies in their role as lobbyists. US Embassy and press reporting indicates these groups use demonstrations and press conferences to persuade their own governments to support the Sandinistas. To foster such activities, Managua established the Nicaraguan People's Committee in 1979 to promote "internationalism and ties to national liberation groups." Last October, the regime initiated an international campaign called Nicaragua Must Survive to reduce the effects of US trade sanctions through international solidarity. [redacted] 25X1

Paraguay

Radio Censorship [redacted] 25X1

Radio Nanduti, the country's largest independent radio station, may soon be forced to close as a result of government harassment. For the past few months, Radio Nanduti has been subject to selective jammings, preventing the broadcast of sensitive political themes such as protest demonstrations or public criticism of President Stroessner's policies, according to the US Embassy. The frequent interference—discontinued only during the recent visit of a representative of the UN Human Rights Commission—is costing the station much of its audience and advertising funds. The US Embassy reports that the ruling Colorado Party has publicly warned businesses that it considers advertising on Radio Nanduti to be "financial aid" to subversives. The station has complained about the jamming, but the government contends it lacks the technical capability to locate the source of the interference. [redacted] 25X1

We believe the Paraguayan Government may eventually shut down the station. The Stroessner regime has systematically harassed Radio Nanduti since July 1983—arbitrarily closing the station, detaining the owner, and prohibiting certain programs. In early May, masked thugs—widely considered to be acting at the government's behest—vandalized the radio's transmitter. The government's tactics against Radio Nanduti come on the heels of the closure in March 1984 of Paraguay's most popular and independent daily newspaper, *ABC Color*. In addition, the Catholic radio station, Radio Charitas, is beginning to experience problems similar to those of Radio Nanduti, and last month the priest in charge of the station was prevented from reentering the country. Continued censorship of opposition media will further fuel international criticism of Stroessner's blatant repression of civil rights but, in our view, is unlikely to change his policies. [redacted] 25X1

Chile

Developing Nuclear Expertise [redacted] 25X1

President Pinochet has approved the redesign and completion of the Lo Aguirre nuclear reactor, one of Chile's two nuclear training centers [redacted] 25X1 25X1 Because of design problems experienced with the reactor when it was first started up in 1977, the government opted to disassemble its core and put major new investments on hold. At the time, Pinochet mollified military proponents of the project by offering to consider whether economic conditions would justify renewed funding in the mid-1980s. The past two years of economic growth bolstered the case of the military faction that favors developing expertise in nuclear areas. [redacted] 25X1

Chile's nuclear energy commission estimates the project will cost several million dollars and take 18 months to complete. The revised plans for the reactor, a near copy of Spain's JEN-1 pool-type reactor, call for it to operate on 20-percent enriched uranium fuel—not suitable for nuclear weapons—rather than the original 90-percent enriched fuel. We have not identified the supplier. The center housing of the reactor is designed for reactor operations and training, as well as for applied and theoretical research in physics, isotopes, and materials testing. In addition, a multipurpose radioisotope production laboratory and an industrial-scale irradiation sterilization unit may be included. [redacted] 25X1

Cuba

Castro Meets Mother Teresa [redacted] 25X1

Mother Teresa's 24-hour visit to Cuba on 8 July was unquestionably a public relations plus for the Castro regime, but the brevity of her stay appears to have limited—at least for the moment—Havana's ability to exploit it politically. A better opportunity to do so may arise later. Mother Teresa announced she would

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return at some unspecified date to confer with government officials about establishing a Cuban affiliate of her religious community, the Missionaries of Charity, according to the Cuban media. [redacted] 25X1

Mother Teresa was both welcomed and seen off at the airport by Jose Felipe Carneado, the Central Committee member in charge of the party's relations with religious groups. In addition to meeting with President Castro, she visited the Santovenia Home for the Aged, where nuns care for 430 elderly tenants, and stopped briefly at the Nuestra Virgen de Regla Church in a working-class neighborhood in Havana. The US Interests Section in Havana notes that the large crowd on hand to greet Mother Teresa at the church—despite the lack of advance warning—was jubilant and enthusiastic, at times appearing almost to crush her with good wishes. The popular demonstration may alert the Castro regime to the political danger inherent in giving any revered religious figure ready access to the public when times are growing more difficult. [redacted] 25X1

British Virgin Islands

Possible New Government [redacted] 25X1

Legislative Council members in the British Virgin Islands, led by Minister of Labor Conrad Maduro, are quietly organizing for a vote of no confidence soon against Chief Minister Cyril Romney. Romney, a political independent, was 25X1 selected as head of the government in November 1983. Dissatisfaction with the Chief Minister stems from his close association with businesses linked to drug-related money laundering, according to the US Embassy in Antigua. [redacted] Romney believes he could survive a call for new 25X1 elections but that such a move could suggest an international image of instability and would be a financial burden to the country. Elections are not constitutionally mandated until 1988. The Embassy indicates that Romney's support in the Council and the general population is not strong. Many of his colleagues reportedly believe he is motivated by economic profit and personal greed in serving as Chief Minister. [redacted] 25X1